



Belgeo

Revue belge de géographie

1 | 2003

Privatisation of urban spaces in contemporary European cities

Private neighbourhoods as club economies and shareholder democracies

Private Siedlungen als Clubökonomien und Shareholder-Demokratien

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Electronic version

URL: <http://journals.openedition.org/belgeo/15317>

DOI: 10.4000/belgeo.15317

ISSN: 2294-9135

Publisher:

National Committee of Geography of Belgium, Société Royale Belge de Géographie

Printed version

Date of publication: 31 March 2003

Number of pages: 87-98

ISSN: 1377-2368

Electronic reference

Georg Glasze, « Private neighbourhoods as club economies and shareholder democracies », *Belgeo* [Online], 1 | 2003, Online since 01 April 2003, connection on 22 May 2020. URL : <http://journals.openedition.org/belgeo/15317> ; DOI : <https://doi.org/10.4000/belgeo.15317>

This text was automatically generated on 22 May 2020.



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Private neighbourhoods as club economies and shareholder democracies

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Georg Glasze

Private neighbourhoods as “privatisation of public space”?

- 1 In 1989 Barton and Silverman announced “a quiet revolution in local politics”: the spread of private neighbourhoods in the USA (p. 31). Nelson, a former consultant of the US Secretary of the Interior, thinks that private neighbourhoods might become “the fundamental building block for the metropolitan political and economic organisation. (...) We would have two basic forms of private property ownership – the condominium form (or residential community association) for residential property and the corporate form for business property” (Nelson, 1989, p. 51).
- 2 There is no reliable inventory of private neighbourhoods in the USA. Therefore, the membership of the Community Associations Institute (CAI), the lobby association of private neighbourhoods, is the best source for a list of private neighbourhoods. According to the figures of the CAI, the number of private neighbourhoods in the USA grew rapidly from around 10 000 in 1970 to more than 200 000 in 1998. As membership is voluntary, that list underestimates the number of private neighbourhoods. At the turn of the century, at least one out of six American is living in a private neighbourhood. In the fastest growing regions of the US, more than half of all new home sales are in a private neighbourhood. Every fifth of these private neighbourhoods in the USA is gated and guarded (Treese, 1999). First studies in other regions of the world allow the assumption that there is also a growing trend towards private and

often guarded neighbourhoods in many countries in Latin America, Africa and Asia (Webster, Glasze and Frantz, 2002; Glasze, 2002).

- 3 The interest of the media¹ and the social sciences in private neighbourhoods has primarily focused on guarded neighbourhoods. Contemporary processes of urban development seem manifested in the gates, walls and fences of these complexes. Thus, the guarded private neighbourhoods are taken by many authors as an extreme form (Gmünder, Grillon and Bucher, 2000, p. 193) of a “privatisation of public spaces” (referring to the USA for example: Judd 1995, p. 163; Lichtenberger, 1999; Frantz, 2000, p. 112; Le Goix, 2002; and referring to other regions of the world for example: Connell, 1999, p. 417; Meyer and Bähr, 2001, p. 316; Coy and Pöhler, 2002, p. 355).
- 4 The value of “public space” and its endangering through “privatisation” is a much quoted topos within the critique of contemporary urbanism. The reason may be that the concept of “public space” is a very powerful normative idea (Habermas, 1990, p. 20; Caldeira, 1996, p. 315). However, “public space” and “privatisation” are extremely vague analytical categories (Glasze, 2001b, p. 161 et seqq.). Therefore, it often remains unclear what exactly is privatised and how privatisation is carried out. The writings on “privatisation of public space” dichotomise between the public realm and the private realm, they often focus unilaterally on material changes in space and therefore risk blocking from view a more profound and differentiated analysis of the complex socio-economic and socio-political changes which are underway with the spreading of private neighbourhoods (cf. Soja, 2000, p. 320; Webster, 2002, p. 397 et seqq.).
- 5 Based on the writings of some colleagues in the “research network on private urban governance”² as well as on empirical work in the US, Lebanon and Europe I will propose two analytical approaches which heuristically might be more fruitful. In order to understand the economics of private neighbourhoods I will use the club goods theory. Furthermore, in order to portray the political changes underway I will analyse the private neighbourhoods as private residential governments. In this perspective, the spreading of private neighbourhoods might be described as the establishment of a new territorial organisation on a local level which enables the exclusive consumption of collective goods, and in which political decisions are taken in a kind of shareholder democracy.

A typology of private neighbourhoods

- 6 In traditional neighbourhoods the open spaces (streets, parks, footways etc.) as well as a lot of common facilities (public libraries, swimming pools, schools etc.) are owned by public authorities and governed by local government. In the private neighbourhoods, the open spaces and the common services are managed and regulated by a self-governing organisation. In spite of differing juridical contexts one can describe three main organisational types of private neighbourhoods which differ in the way that property rights for the open spaces and facilities as well as for individual housing units are assigned (McKenzie, 1994, p. 94 et seqq.; Treese, 1999, p. 3; Glasze, 2001a, p. 43):

- Condominiums: In addition to the individual property of their piece of land and house or their flat, the owners hold titles to an undivided interest in the common property of streets, green spaces, facilities, etc. Thus every owner automatically becomes member in the homeowner association.

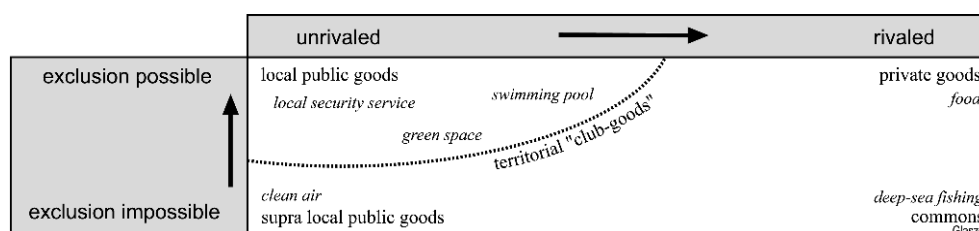
- Stock-cooperatives: The cooperative owns both, the housing units as well as the common spaces and facilities. The individuals purchase a share in the entire complex. That share offers the right to use an individual unit as well as the common areas and facilities. The assembly of the cooperative appoints the detailed rights of use.
 - Corporations: The common spaces and facilities are property of the corporation. In those cases where a covenant attached to the deed for a residence or a residential lot makes each owner “automatically” holding shares in the corporation, it is often also called home owner association. In other cases where there is no accordance between the shareholders and the people owning or renting the housing units Foldvary (2002) has labelled this form “proprietary neighbourhoods” – referring to an idea of Spencer Heath MacCallum.
- 7 There is a correlation between the physical structure of the neighbourhoods and the form of organisation: Most private apartment complexes are organized as condominiums or cooperatives. Private settlements with predominantly single family homes are most often organised as corporations³. In many countries of the world the first private neighbourhoods have been secondary residences – the so-called resorts. Investors who combine such secondary residences with hotels or other tourist facilities tend to organise them as proprietary neighbourhoods in order to keep the power of decision over the development, the management and marketing of the whole complex.

Private Neighbourhoods as club economies

From local public goods to territorial club goods

- 8 The self-administration of private neighbourhoods provides the inhabitants with many collective goods like green spaces, water supply, recreational facilities etc.⁴ Economists have justified the fact that even in market economies some collective goods are traditionally provided by public organisations due to market failure. That is to say the market fails to provide goods when nobody can be excluded from consumption and there is no competition, no rivalry in consuming. Free-riders could profit from goods like clean air or urban green spaces without paying for them. Then, these goods are not sufficiently provided by the private sector and the public sector has to step in. On the other hand, for private goods like food there is rivalry about the consumption and third parties can be excluded from consuming. Sometimes, commons are differentiated as a third category of goods which are competed but for which the exclusion criteria are hard to meet. Consequently, these goods often suffer from overuse, as for example the fish population in the deep sea (fig. 1).

Figure 1. Public goods, private goods and territorial club goods.



- 9 However, already in 1956 the American economist Tiebout pointed out that many collective goods which were generally described as public goods are local public goods

in the sense that they benefit primarily people who stay at a certain locality. He gave local security services, green spaces or public swimming pools as examples of such local public goods. According to Tiebout, these local public goods could be provided by competing neighbourhoods if the following conditions were met⁵:

- The local public goods in the neighbourhoods are financed by local taxes of the inhabitants.
 - The households are fully informed and choose their neighbourhood according to their preferences (food-voting).
- 10 It was Foldvary (1994) who showed that private neighbourhoods meet these conditions. The self-administration (and as the case may be the enclosure) renders local public goods completely excludable, solves the free-rider problem and assures that the fees of the inhabitants are exclusively spent within the neighbourhood.
- 11 Groups which collectively but exclusively share the consumption of specific goods on the basis of ownership-membership arrangements have been named “clubs” and the excludable collective goods “club goods” (Buchanan, 1965). Therefore one may interpret the establishment of private neighbourhoods with their self-governing organisation as the creation of club economies with territorial boundaries.

The economic attractiveness of private neighbourhoods

- 12 The analysis of private neighbourhoods as club economies enables to explain the economic attractiveness of these complexes for developers, local governments and inhabitants:
- Developers may profit from the fact that the establishment of a neighbourhood governance structure with the power to exclude free riders as well as the power to regulate the use of common spaces and facilities reduces the risk of an economic degradation of the neighbourhood. Thus, the long-term risks in investing in large scale projects are reduced and the developers are able to invest more in creating and maintaining shared facilities (Weiss and Watts, 1989, p. 95). Furthermore, they can market not only the individual home but also the club goods within in the neighbourhood as contractual tie-ins (Webster, 2002, p. 405).
 - Local governments may profit from private neighbourhoods being established within their boundaries as they obtain a development which is self-financing and which adds to the local base.
 - And housing seekers and inhabitants may profit from the level and the quality of local public goods supplied in private neighbourhoods. Private neighbourhoods offer a range of services (e.g. maintenance, 24 h-security, solid waste collection) as well as artificial (e.g. pool, tennis court, green spaces) and natural amenities (e.g. beach, view). Empirical research has shown that the supply of services and facilities often play an important role in the decision for this kind of housing – especially in cities where the public sector is weak (Pöhler, 1998; Leisch, 2002; Glasze, 2003). Furthermore, the individual owners may profit from stable home values as the self-administration assures a strict control of the social and physical environment.

Are public municipalities club economies too?

- 13 Webster (2002, p. 398) and Nelson (1989) have argued that in an economic perspective public municipalities are not as different from private neighbourhoods as it is usually

assumed. Regarding the supply side, one has to state that the differences between municipalities and private neighbourhoods are at least shrinking: Municipalities in the USA, as in Europe and many other parts of the world “in recent years have been turning away from direct governmental provision of local services, instead contracting for these services with private suppliers” (ibid., p. 47) just as it is the practice in private neighbourhoods⁶.

- 14 If one leaves aside the question who provides a particular collective good and focuses on the consumption, one has to distinguish different types of municipalities with regard to the following two characteristics: (a) financing and (b) socio-economic homogeneity, or heterogeneity:
- 15 In a pure federal system, where the municipalities are exclusively or predominantly financed by local property or income taxes as in the USA, the funding is quite similar to private neighbourhoods, “a set of shared goods is (...) financed by a shared cost arrangement” (Webster, 2002, p. 400). Consequently, municipalities with mostly affluent inhabitants are rich and municipalities with mostly poor inhabitants are deprived. The rich municipalities are able to supply collective goods in higher quantity and quality than the poor municipalities – more and better green spaces, swimming pools, local security services, theatres and so on. The wealthy inhabitants who finance these collective goods with their taxes profit from their high quality and quantity not only by consuming but also through stable or increasing home values. Therefore, they are likely to try preventing free riding by less affluent households, who do not generate “adequate” tax revenues. If they are able to dominate the decision-making of the council, they may use legal instruments to hinder the in-migration of poor households. Danielson has shown that many rich suburban municipalities in the USA use zoning as such an exclusionary instrument (1976, p. 1 et seqq.). Their councils establish public regulations which restrict the development of multi-family buildings and thus limit the in-migration of less affluent households⁷. Consequently, the local public goods in these municipalities become club goods. The exclusion mechanism is the same as in the private neighbourhoods: distancing. Hence, many rich, small, socially homogeneous and mostly suburban municipalities in the USA work de facto much like a private neighbourhood. “Zoning provides the property right [over open spaces, common facilities etc.], local property taxes provide the membership fees, and the city council is de facto a private board of directors” (Nelson, 1989, p. 46). Regarding big municipalities, Webster is certainly right when he states that “few civic goods are shared equally by all within a city and inclusion and exclusion are facts of urban life” (2002, p. 409). Even a public library or a public swimming pool has to exclude in order to avoid over-use and therefore has “club-like consumption characteristics” (ibid., p. 398). The access may be limited to people living in the specific municipality or regulated by entrance fees – offering a temporary “membership in the club.”
- 16 However, if the financing of the municipalities is not based exclusively or primarily on local sources as it is the case in countries with a centralised system like France, or if there are vertical or horizontal perequations as in the German “cooperative federalism”⁸, the above described mechanism does not work: the quantity and quality of supplied collective goods does not vary enormously from one municipality to another. Therefore, the motivation to prevent free-riding and to exclude less affluent households is smaller. And in socially heterogeneous municipalities the decision-making of the council has to focus not only on the economic interest of the

municipality as a whole but has also to balance internally the different interests of the (voting) inhabitants.

- 17 Thus, there seems to be a fundamental difference between club economies established as private neighbourhoods (and some small and homogeneous municipalities as described above) on the one hand side and club economies organising the consumption of public facilities in every city on the other hand side: in a private neighbourhood, only the people who are able to afford living in the neighbourhood are allowed to use, for example, the recreational facilities. The use of a public swimming pool in a city has to be regulated too, but the rules defining the rights of use are taken in a city council where – ideally – the interests of different groups of the society are represented. Therefore, in socially heterogeneous municipalities with functioning democratic institutions, it is more likely that the city council takes into account the interests of social groups with little economic power. For example, a council might decide that every school class of the city is allowed to use the public swimming pool for one hour a week – thus, enabling children with a deprived family background to learn how to swim.

Private neighbourhoods as shareholder democracies

- 18 In the US in the 1990s arose a discussion of the self-administration of private neighbourhoods as a new form of territorial organisation. The lobby association of private neighbourhoods, the Community Association Institute (CAI), judged the self-administration of private neighbourhoods as an ideal organisation of local democracy: “... the most representative and responsive form of democracy found in America today”⁹. And indeed, empirical studies have shown that functioning home owner associations offer new possibilities for the individual inhabitant to become involved in the development of his neighbourhood and may foster voluntary engagement on a neighbourhood scale (Barton and Silverman, 1989; Glasze, 2003).
- 19 The decision-making in private neighbourhoods follows the model of stock-corporations. In such shareholder democracies, the standards of equality and open decision-making are less rigid as in public politics. For stock-corporations this is hardly seen as a problem assuming one dominant joint interest. However, even though most private neighbourhoods are socially quite homogeneous, there are differing interests. There are disagreements between inhabitants and the developer for example on warranty issues, between absentee owners and inhabitants, for example on the charges for common facilities, between households with children and households without children for example on the construction of a playground as well as between tenants and owners for example on regulating the use of common facilities. In short: there are politics within private neighbourhoods.
- 20 If one looks at the constitutions of western nations, one finds several basic democratic principles organising the political life on a national, regional and local scale, as for example the principle of equality, the principle of the sovereignty of the people, the principle of public decision-making and the principle of pluralistic decision-making. In private neighbourhoods, the imbalance between differing interests and missing democratic institutions often leads to the infringement of such basic democratic principles (McKenzie, 1994, p. 122 et seqq.; Scott, 1999, p. 20 et seqq.; Silverman and Barton, 1994, p. 141)¹⁰:

- 21 Violation of the principle of equality: In contrast to public municipalities, the suffrage for the board of directors is not bound to the place of residence and citizen rights but to the property. Therefore tenants are excluded from decisions concerning their proper neighbourhood. Furthermore, in most condominiums and corporations the voting rights are attributed according to the value of the property: Instead of “one man one vote”, decisions are taken on the basis of “one Dollar one vote” (Frug, 1999, p. 171).
- Missing “opposition”: There is no institutionalised opposition or any other institution assuring a pluralistic decision-making as it is or at least should be assured by parties in a territorial organisation with public municipalities. Thus, the members of the councils have privileged access to information and a privileged power to determine the agenda. Minorities risk being dominated.
 - Dictatorial and oligarchic structures: In proprietary neighbourhoods, the former investors keep the majority of the property. Thus they are able to control the development of the open spaces, facilities and services as well as to manage the complex in a profit-oriented way. However, even in “normal” home owner associations the former investors often dominate the decision-making by keeping a part of the apartments or houses and/or by making use of the voting power of friends, relatives or employees.
 - In view of these deficiencies it is hardly astonishing that studies in the USA and Lebanon have found a lot of conflicts within the private neighbourhoods. Consequently, the commitment of the inhabitants to their home owner association often is very limited (Alexander, 1994, p. 148; Blakely and Snyder, 1997, p. 129; Glasze, 2003).

Discussion: efficiency, democracy and individual life opportunities

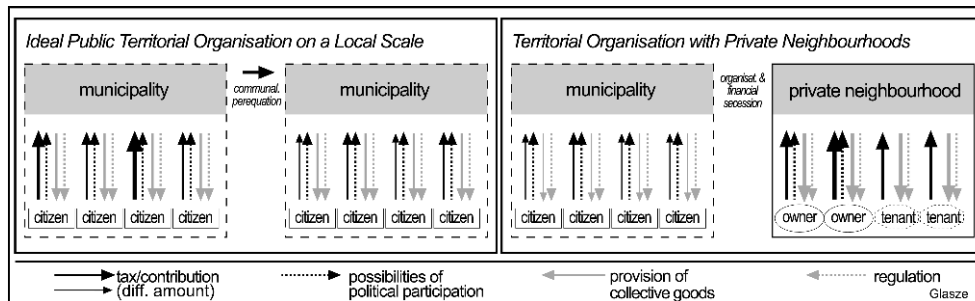
- 22 The example of many suburban municipalities in the USA has shown that it is not appropriate to dichotomize between “open, democratic and socially balanced” public municipalities and “closed and secessionist” private neighbourhoods. For that reason, I propose to rather evaluate case by case to what extent a given territorial organisation assures an efficient supply with collective goods, allows a democratic decision-making, provides equal life chances and does not endanger social coherence on a regional or national scale. In this résumé I will try to sketch out such a critical analysis.
- 23 The efficiency argument speaks for the establishment of small club economies with a direct connection of shared consumption and collective cost arrangements. Private neighbourhoods give “legal protection to the economic right over shared neighbourhood attributes” (Webster, 2002, p. 409). Formalised institutions organise the property rights in these club economies and therefore enable a more efficient (private market) supply of local public goods as in heterogeneous and bigger municipalities where there are no such direct and formalised arrangements. Consequently, several urban economists judge private neighbourhoods as a “natural evolution” of urban institutions (Nelson, 1989; Foldvary, 1994; Webster, 2002). However, the focus on “preferences” as main variable explaining the differences between neighbourhoods blocks from view that “most public services [are] regarded as desirable” (Frug, 1999, p. 171) and that it is the economic (and to some extent social and cultural) capital which determines the options on the housing market (Whiteman, 1983, p. 346 et seq.). In the long run, the spread of private neighbourhoods would lead to a territorial organisation where everybody lives in autonomous enclaves according to his financial

capacity. The provision with basic services like education, environmental quality or health would directly depend on the individual wealth. Basic life opportunities would be distributed in highly unequal ways. These examples make obvious that a purely economic definition of public and local public goods which dominates the writings on territorial club economies tends to neglect the importance of a universal and non-discriminatory supply of some services for assuring social cohesion, environmental quality and overcoming of social and/or geographical exclusion. In most countries of the European Union the local authorities are partially or completely responsible for assuring a universal and secure supply of many basic services like social care, education and municipal engineering (cf. Lichtenberger, 1998). Within the European Community, at the latest with the treaty of Amsterdam, official politics began to recognize the importance of what are called “services of general interest”¹¹ in the nomenclature of the European Commission (French: “services publics”, German: “Daseinsvorsorge”). The “green paper on services of general interest” which has been published by the Commission of the European Community in 2003 judges these services as “part of the values shared by all European societies, (...) an essential element of the European model of society, (...) [and] a pillar of European citizenship” (Commission of the European Communities, 2003, p. 3). That is not to say the European Commission promotes a provision of these services exclusively by public organisations – on the contrary, it is highly probable that the Commission is continuing to encourage the liberalisation of further markets. Nevertheless, the green paper allows the assumption that for social and ecological reasons the Commission tends to leave the responsibility for assuring a universal and non-discriminatory supply of these “services of general interest” at accessible prices to public and most often local authorities. These public authorities may either provide these services themselves or contract for these services with private suppliers (Prodi, 2002; Commission of the European Communities, 2003).

- 24 Regarding the question of democracy one has to differentiate between the internal decision-making and the external politics of private neighbourhoods concerning their social environment. Keating (1991) and Frug (1999) fear that the external politics of socially homogeneous municipalities and private neighbourhoods will be absorbed by the search for an optimal satisfaction of the inhabitants and won't bother with concepts aiming at a social balance on a bigger scale. The attempts of several homeowner associations in the US and other parts of the world to secede from wider public territorial organisations (cf. Anderson, 1996) validate that fear of a “secession of the successful”¹². Furthermore, in several years, the home owner associations of private neighbourhoods in the USA might become a powerful lobby association on a regional and even national scale. Therefore the institutionalisation of a new form of private urban governance risks (further) complicating social balance and raising new social barriers. Internally, the social homogeneity, the small scale and the institutionalisation of a neighbourhood organisation may foster a sense of community and voluntary engagement. However, several studies have shown that the internal decision-making in private neighbourhoods often violates basic democratic principles. While the basic ideals of contemporary civil democracies are “equal rights and chances for every citizen”, the private neighbourhoods can be interpreted as territorial shareholder democracies, which bind political influence and individual life opportunities closely to individual economic strength – the shares in the neighbourhood (Fig. 2). Therefore, the political organisation in private neighbourhoods is returning to the days of a census suffrage where political influence is institutionally based on status and class. If one

bears in mind that the local arena is the “school of democracy” (Tocqueville), one has to ask whether the private neighbourhoods are a good place to learn democracy.

Figure 2. Citizen, public municipality and private neighbourhood – an organigram of territorial organisation.



Conclusion

- 25 The analysis of private neighbourhoods as territorial club economies explains the attractiveness of this form of housing for developers, local governments as well as residents. However, the writings relating the club goods-theory with the spread of private neighbourhoods tend to ignore the social construction of institutions, the differing interests in society and the unequal distribution of power. The reconfiguration of the territorial organisation which is underway with the establishment of private neighbourhoods serves specific interests. In a society-wide perspective one has to trade off carefully between the efficiency of such territorial club economies and the secessionist effects of a political and organisational fragmentation.

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NOTES

1. Thus the German weekly paper *Die Zeit* reports: "In the mega cities of the South the rich are fleeing to housing castles" (Grill B., *Die Zeit*, 18.05.2000: "In den Megastädten der Südhalbkugel flüchten sich die Reichen in luxuriöse Wohnburgen"). The *Berliner Morgenpost* writes: "More and more Americans retreat to fortress-like settlements" (Schröder E., *Berliner Morgenpost*, 30.07.1997: "Immer mehr Amerikaner ziehen sich in festungsartige Siedlungen zurück"), and *Le Monde diplomatique* describes under the title "The 'private cities' à la française" the development

of “fortresses of the rich” in France (Belmessous H., *Le Monde diplomatique*, November 2002: “Des ‘Villes Privées’ à la française”).

2. www.gated-communities.de

3. In the nomenclature of the CAI private settlements with predominantly single family homes and a corporation holding the title of the common areas is called “planned community” (Treese C. J., 1999). Community Associations Factbook. Alexandria, VA, Community Associations Institute.

4. Goods in the sense of any material goods, services or infrastructure.

5. The other assumptions of Tiebout might be neglected in this context.

6. For a detailed analysis of the privatisation of formerly public provision one would have to differentiate between formal (“organisational”) and material privatisation.

7. At the same time these suburban municipalities protect themselves from social spending. Comparable patterns can be observed in France, where small suburban municipalities also impede the in-migration of poor households. These municipalities liberate themselves from the duty to construct social housing by paying a forfeit.

8. Article 72 of the German Constitutional Law demands from the central government despite a federal organisation of the state that it assures an “equality of life circumstances” (“Gleichwertigkeit der Lebensverhältnisse”) for the whole territory.

9. www.caionline.org/about/facts.cfr (10.12.2000).

10. In Arizona (USA) has been established an association who acts against the decision-making in many home owner associations judged as undemocratic (www.pvtgov.org/pvtgov, 2.12.2001).

11. The term “services of general interest” cannot be found in the Treaty itself. The Commission derived it from the term “services of general economic interest” in Article 16 of the Treaty. It covers both market and non-market services which public services class as being of general interest and subject to specific obligation (European Commission, 2003, p. 6). The Treaty of Nice recognises the right of access to services of general interest for the European citizens (Art. 36).

12. Reich R. B. (1991), “Secession of the Successful”, *The New York Times Magazine*, 20 January 1991, pp. 16-17, 42-45.

ABSTRACTS

The spread of privately governed and often guarded neighbourhoods in many countries of the world has been interpreted by several authors as a manifestation of a “privatisation of public space”. However, it often remains unclear what exactly is privatised and how privatisation is carried out. The paper presents two approaches which offer some deeper insights into the socio-economic and socio-political changes which are underway with the spread of private neighbourhoods. On the one hand, the analysis of private neighbourhoods as club economies explains the economic attractiveness of this form of housing. On the other hand, the study of private settlements as a new form of territorial organisation shows that the political decisions are taken in a kind of shareholder democracy, and that social differences become institutionalised.

Der in zahlreichen Ländern der Welt zu beobachtende Boom privater und vielfach bewachter Wohnsiedlungen wird von einigen Autoren als Manifestation einer “Privatisierung öffentlicher Räume” interpretiert. Dabei bleibt allerdings häufig unklar was und auf welche Weise privatisiert wird. Der Beitrag stellt daher zwei Ansätze vor, die einen weitergehenden Einblick in die sozio-

ökonomischen und sozio-politischen Veränderungen ermöglichen, die mit der Ausbreitung privater Siedlungen verbunden sind: Dabei kann die Analyse privater Wohnsiedlungen als Club-Ökonomien die ökonomische Attraktivität dieser Wohnform erklären. Eine politisch-geographische Betrachtung der privaten Siedlungsorganisation als neue Form territorialer Organisation zeigt allerdings, dass die politischen Entscheidungen dabei in einer Art shareholder-Demokratie getroffen werden und soziale Unterschiede institutionell verfestigt werden.

INDEX

Schlüsselwörter: private Siedlungen, territoriale Club-ökonomien, öffentlicher Raum, Privatisierung, lokale Demokratie, kommunale Verwaltung

Keywords: private neighbourhoods, territorial club economies, public space, privatisation, local democracy, urban governance

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